TESTIMONY OF SECRETARY OF TRANSPORTATION DREW LEWIS

BEFORE THE SENATE FINANCE COMMITTEE SUBCOMMITTEE ON INTERNATIONAL TRADE

March 9, 1981

Mr. Chairman, I appreciate the opportunity to appear before this Committee to discuss the condition of the U.S. auto industry and the work of the Administration's Task Force on the problems of the industry. I mentioned in my confirmation hearings that I considered the health of our auto industry to be the single most pressing problem that would face me as Secretary of Transportation. After nearly two months at the Department, dealing with a wide range of issues, I can make that statement again today with complete certainty that it is true.

I do not think that I need to go into detail on the nature of the auto industry's problems for this Subcommittee. They have been sufficiently documented in the Department's recent report on the subject.

As an update to that report, however, I would add some recent developments. The 1980 year-end results are now public and the news was not good. General Motors lost $763 million; Ford lost $1.54 billion; Chrysler lost $1.71 billion; and American Motors lost $198 million -- record losses for each company. Although sales figures showed considerable improvement for the last week in February as a result of the deep discounts offered by all U.S. automakers, 1981 year-to-date sales totals are still running about 14 percent behind last years already depressed levels. Layoffs at GM, Ford, Chrysler and AMC, while declining during the last quarter of 1980 from their record high levels of last summer, are still persistently hovering around 200,000 persons. Imports continue to cut deeply into the domestic market, with record high February sales of some 219,000 units, accounting for 28.7 percent of total sales in the U.S. The turn-down rate for auto loan applications is still running at roughly 30 percent. Frankly, given the sluggish start of the new year, I cannot be particularly sanguine about the industry's prospects for significant profits in 1981.

Not only is finding a solution to the problems of the auto industry among my top priorities; it is also among the top priorities of the President. Less than a week after taking office, President Reagan asked us to form an Automotive Task Force to address the industry's serious problems. On January 28, 1981, I announced the formation of the Task Force, which in addition to myself, has five other cabinet-level officials: Secretary of the Treasury Donald Regan; Secretary of Commerce Malcolm Baldrige; Secretary of Labor Raymond Donovan; U.S. Trade Representative Bill Brock; and Chairman of the Council of Economic Advisors Murray Weidenbaum.

Since its formation the Task Force has been exploring the full range of alternatives available to Government, industry and labor to help turn the fortunes of the domestic auto industry around. The members of the Task Force and their staffs have been and are carefully looking at and actively discussing the industry's many problems, including those relating to:

- o trade policy;
- o capital formation and productivity improvements;
- o Government regulation;
- o worker assistance;
- o community assistance;
- o antitrust; and
- o the availability of credit for dealers and consumers.

We are now in the process of pulling together the views of the various members on these subjects, which we will then synthesize and convert into a decision package for the President. We hope to be able to present the Task Force's report to the President in the next several weeks.

I and other members of the Task Force have met frequently with the parties directly affected by the auto industry's current plight to make certain that we have the benefit of their views and knowledge. In the last few weeks, I have spoken with the heads of each of the U.S. auto companies, and with the leaders of the United Auto Workers; with the Governor of Michigan, the Governors of other hard hit states and the Mayor of Detroit; with representatives of the supplier industry; with financially strapped auto dealers; and with many concerned members of the Congress. This communication and the exchange of ideas that accompanies it is critical to finding a workable, long term solution to the problems of the industry. For if anything has been made clear to me during my short tenure as Secretary of Transportation it is that, just as the finger of blame for the industry's problems cannot be pointed at Government or labor or management alone, neither can a lasting solution emerge from the actions of a single party.

I firmly believe that Government, management and labor each have something of value to contribute to the task ahead; and, furthermore, that each <u>must</u> be willing to make that contribution if our efforts are to be of lasting value. I must say that I have been encouraged in that respect by the thoughtful and constructive discussions we have had with all parties.

Although we cannot as yet go into detail on the proposals the Task Force will put before the President, I can point to a couple of actions on the part of the Administration with the Congress that should prove of significant aid to the auto industry.

First and foremost is early Cngressional action on the President's comprehensive economic program, which is designed to reduce Government's demands on sources of capital needed by the private sector, encourage consumer and investor confidence and bring interest rates down to reasonable levels. The plain truth is that we will not bring buyers back to the showrooms, we will not return workers to plants, we will not get production lines operating at efficient levels again, we will not see the auto companies earning profits to plow back into improved designs and facilities -- <u>until</u> we get the economy back on track. I am convinced that the auto industry ultimately will be one of the primary beneficiaries of the President's economic program. Unfortunately, due to their tax loss situations, most of the U.S. automakers will not gain any near-term benefits from the accelerated cost recovery features of the President's tax reform program.

The second thing I can point to is the long needed critical review of Government regulation of the auto industry that we have underway. There is no question that the need to meet numerous Government regulations has diverted financial and human resources from use in the development of more efficient automobile designs and equipment and has added to the prices consumers must pay. All agencies are currently reevaluating their regulations. In my own Department, for example, I have already proposed a one-year delay of the present motor vehicle occupant protection standard. The Task Force is putting together a comprehensive package of similar regulatory actions affecting this industry. Even after the Task Force has completed its work, individual agencies will continue to pursue these types of efforts to reduce the auto industry's regulatory burden.

As you can see, we are making strides to address some of the industry's most pressing problems. There remains much to be done, however. The auto industry's problems will not be easy to solve and they will not be solved overnight. But solve them we must, for the auto industry is vital to this country's economic well-being.

We are determined -- through a concerted effort by the Administration, the Congress, management and labor alike -- to return our auto industry to health and to strengthen its competitive position in world markets.

2